

Date: 12 July 2018

June 2018 inflation rate continues upward trajectory

The Namibia Statistics Agency has released the Consumer Price Index (CPI) for June 2018 on 12 July 2018. The CPI is being used to calculate the monthly (compared to the previous month) and year-on-year (compared to the same month last year) inflation rates. The inflation rate continued its upward trajectory increasing from 3.8% in May to 4.0% in June 2018 compared to a year ago. It reflects the strongest price increases so far this year, but the inflation rate remains lower than the annual inflation rate in June 2017 that stood at 6.1%. On a month-to-month basis, inflation slowed down from 0.4% in May (compared to April) to 0.2% in June 2018 (compared to May).

Following are some highlights of the annual inflation rates for June 2018:

- **Prices for goods** increased by 3.8% in June compared to 3.6% in May 2018. This is the fastest increase since June 2017 when the prices for goods rose by 4.5%. **Prices for services** in contrast increased at the same rate in June 2018 as in May namely by 4.2%. It is the slowest increase since December 2015 when prices for services rose by 3.1%.
- **Prices for food and non-alcoholic beverages** rose at a slightly slower pace of 3.8% in June compared to 3.9% in May 2018. It remains, however, the strongest increase since September 2017 when prices rose by 4.2%. The slightly lower increase in this category was caused by a slowdown of **food price** increases from 4.1% in May to 4.0% in June. Price rises for **bread and cereals accelerated** by 3.1%, up from 2.3% in May and an actual contraction in prices in the previous months since April 2017. In contrast, **meat price increases decelerated** in June 2017 rising by 6.9% compared to 8.5% in May. This is the slowest price increase for meat products since November 2016 when prices rose by 4.4%. Bread, cereals and meat account for more than 50% of the food items and hence have a strong impact on the overall food price inflation. **Fruit price** increases remain strong at 12.4%, although slightly lower than in May at 12.6%. **Prices for vegetables** have seen the strongest growth with 6.1% since January 2017 when they increased by 8.3%. Although higher than in May, inflation for **milk, cheese and eggs** remained the lowest since June 2012 when prices decreased by 1.0%. Milk etc. prices went up by 0.8% in June 2018 compared to 0.2% in May.
 - Price changes in the category ‘food and non-alcoholic beverages’ have a strong impact on the overall inflation rate since the category accounts for 16.5% of the consumption basket – the basket that contains all goods and services consumed by Namibians.
- Price increases for **housing, water and electricity** – the items that account for the largest share in the consumption basket (28.4%) – slowed down slightly from 3.3% in May to 3.2% in June 2018. It is the lowest inflation rate in this category so far this year with the exception of February that recorded the same rate. The slight drop in price increases was caused by lower price increases for the maintenance and repair of buildings (2.3% in June compared to 2.6% in May) and for electricity

and gas (4.9% in June compared to 5.5% in May). Price increases for rental payments (2.6%) and for water and sewerage (7.2%) remained the same as in May.

- Price increases for **transport** accelerated to 7.2% in June compared to 5.6% in May and reached the highest level since July 2014 when they rose by 8.5%. The rise in transport inflation was caused by petrol and diesel price increases that resulted in the inflation rate for the **operation of vehicles** to rise from 6.2% in May to 8.9% in June. This sub-category of transport accounts for 63% of the category 'transport' and therefore has a strong impact on the transport inflation rate. Furthermore, it influences the overall inflation rate, since the operation of vehicles contributes almost 9% to the overall inflation rate.
- Prices for **alcohol and tobacco** rose at a slightly slower pace in June (5.1%) than in May (5.4%) mainly due to lower price increases for alcoholic beverages (5.3% in June compared to 6.2% in May). In contrast, the inflation rate for tobacco products almost doubled from 2.1% in May to 4.1% in June, which is the highest inflation rate for tobacco this year.
- Prices for **clothing and footwear** remained on a downward trend. They dropped by 5.8% in June compared to a decrease of 5.5% in May. Prices in both categories clothing and footwear declined by 6.2% and 5.0% respectively.

Inflation is continuing its upward trajectory mainly because of fuel price increases. We have, however, expected a sharper increase in transport inflation, and hence in overall inflation, since fuel prices for Windhoek increased by an average of 14.5% in June 2018 compared to June 2017. Fuel price increases in July and most likely also in August will put further upward pressure on the inflation rate. Fuel price increases will also affect production costs and, if continue, will result in second-round effects and price increases for goods sensitive to the cost of fuel. Likewise, we expect the inflation rate for bread and cereals to increase further mainly because of the low base effect since May 2017 when bread and cereal prices started to actually decline. On the other hand, better grazing conditions could result in a further slowdown of meat prices. Food price could remain at current level, because of the opposing trends of bread price and meat price increases.